


City of San José

**THREE YEAR GENERAL FUND
STRUCTURAL DEFICIT
ELIMINATION PLAN
STAKEHOLDER GROUP**

September 8, 2008


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**Change California Local
Government Finance
System**

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**Foundation for California
Municipal Service Delivery**

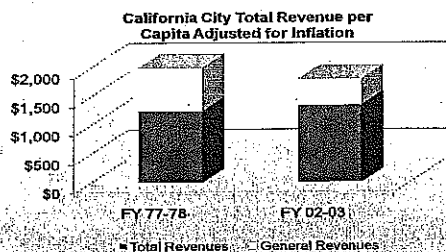
California Constitution grants local jurisdiction in 1879

1. Cities may enact local police, sanitary and other ordinances and regulations not in conflict with State general law
2. State may not enact special laws which affect specific cities
3. State shall not impose local taxes, but can establish taxes on a statewide basis
4. Cities may establish, purchase and operate municipal utilities
5. Charter cities may exercise exclusive jurisdiction over "municipal affairs"

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Changes in General Revenues and Total Revenues

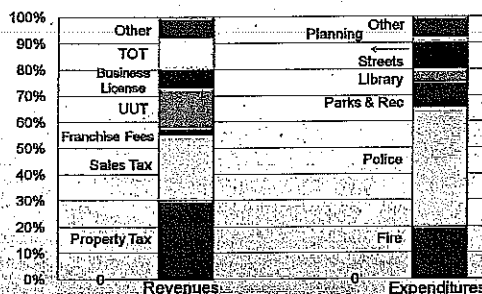


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Discretionary Revenues and Spending

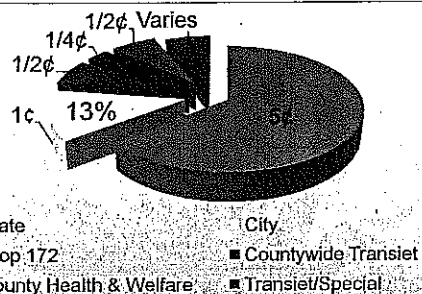
Typical Full Service City



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Sales Tax Distribution

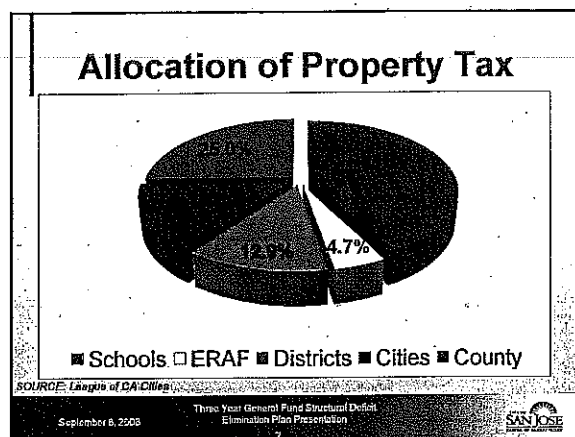


SOURCE: Calif State Board of Equalization

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Problems in California Local Government Finance

1. Erosion of local control of revenue and transfer of control to State
 - Voter initiatives starting with Prop. 13 have restricted local options and transferred power to Sacramento
 - Cities increasingly rely on sales tax revenues

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SAN JOSE

Problems in California Local Government Finance

2. Property tax allocations are fragmented and outdated
 - Allocation reflects decisions made in 1970s and State controls allocation of local revenue
 - Non-retail land uses may not generate enough local revenues to cover costs
 - Land use drives economic and fiscal decisions

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Problems in California Local Government Finance

3. Fiscal structure cannot respond to economic and technical changes

- Sales tax not keeping pace with population and job growth in overall economy
- Property taxes on commercial and industrial property are eroding
 - Legal and accounting mechanisms used to keep reassessment from occurring

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Studies Have Recommended Solutions

1. Lower vote requirements for local taxes to majority unless higher threshold provided in city charter
2. Revise allocation of sales tax from current point of sale
3. Increase property tax allocations to general purpose governments
4. Return property taxes taken by State to general purpose governments

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Study Recommended Solutions

5. Equalize allocation of property taxes across communities
6. Shift property tax allocation from schools to cities and counties; make State responsibility for education funding explicit
7. Broaden sales tax to include selected services

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**Moving from Recommendations
to Policy Changes**


Does the Stakeholder Group
believe that the City should lead
efforts to reform local finance?

And if so, how?

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**Priority Municipal
Services and Elements
of a Potential Priority
Setting Framework**

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**Institutions Which Provide Public Services
to Communities in the United States**

- Federal Government
- State Government
- County Government
- City/Town Government
- Special Districts
- Public-Private Corporations
- Joint Powers Authorities
- Nonprofit Organizations

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County Government

- Hybrid local/state
 - State/federal social service and health programs
 - Aid to families (CalWORKS), food stamps, foster care, in-home support services
 - Countywide local services
 - jails, courts, elections, indigent aid, property tax collection
 - "City" services to unincorporated areas

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City/Town Government

State Constitution does not explicitly define "core" services but nonexclusive list:

1. Regulation of the "city police force;"
2. "Sub government in all or part of a city;"
3. "Conduct of city elections;" and
4. "The manner in which municipal officers [are] elected."

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Where Courts Upheld City Services

- Municipal election matters
- Land use and zoning
- How city spends its tax dollars
- Municipal contracts if charter or city ordinance exempts city from Public Contract Code and subject matter of bid constitutes a municipal affair

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Other Municipal Examples

- Defining Core Services as those legally mandated (Santa Clara County, CA)
- Establishing three tiers of services through objective criteria (City of Austin, TX)
- Identifying services which meet mission then prioritizing based on efficiency and effectiveness (Jefferson County, CO)
- Prioritizing City mission and ranking services in support of mission accordingly (City of Regina, Canada)

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Priority Setting has Three Dimensions

1. What services?
2. How much service?
3. How to provide?

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It's about Mission, Values and Outcomes

How does the Stakeholder Group think the City can develop a priority-setting framework to expand resources on services that provide the most public value?

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Asset Management Update

Status Report to the Structural Deficit Elimination Stakeholders Group
September 8, 2008

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What is Asset Management?

Asset Management is not just declaring surplus and selling City property

Asset Management is ensuring that real estate assets cost-effectively support core City services

- Systematic, periodic review of all properties
- Pursue alternative uses (including sale) where appropriate
- Minimize costs through leases and property maintenance

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How Asset Management Can Help Solve the Structural Deficit

- Ensure City properties are used effectively (possibly adding uses where capacity exists)
- Generate ongoing revenue through market-rate leases where consistent with long-term goals
- Support service delivery through lease or operating agreements with non-profit agencies and for-profit operators
- Generate one-time revenue and reducing maintenance expenses through sale of unneeded property

At the same time, expectations must be realistic since the "value" of public assets can include community building, economic impact, flexibility for future, and other factors

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Current Staff Efforts

- Initiated surplus evaluation of 30 properties; Council to consider in October
- Concurrently advancing discussion of other "high visibility" properties for adaptive reuse
- City and RDA finalizing recommendation on Julian/Stockton warehouse, to generate \$1.6 million plus operating benefit
- Developing recommendations for Asset Management to become an ongoing business practice

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Lessons Learned

Seattle, Charlotte, San Diego, and Los Angeles:

- Institute periodic reviews of property use
- Adopt a structure to support decision-making
- Use a tiered approach to property review and transactions (simple vs. complex)
- Allocate resources to asset management program

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Potential Framework

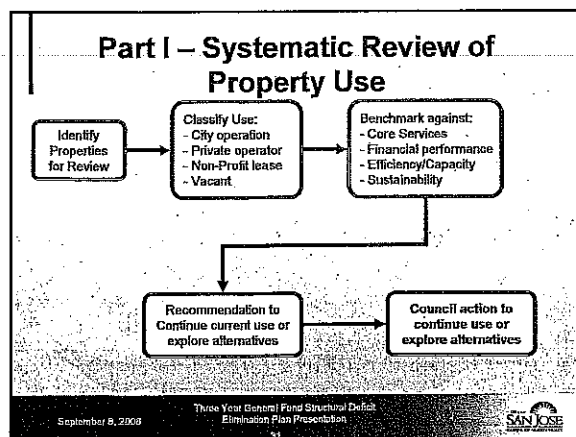
Part I - Systematic & periodic review of property allocation and use

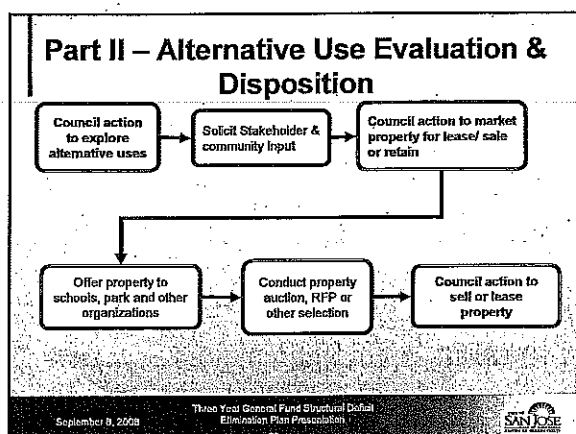
Part II - Alternative use evaluation and disposition

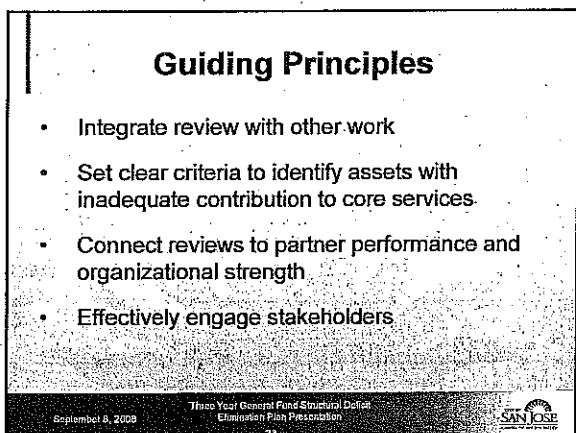
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Example Criteria for Review of Properties

- Property use contribution to core City services
- Financial performance of current use
- Stability/sustainability of current use, operator
- Capacity for additional uses on property
- Economic development or market opportunities for alternative uses

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Example Criteria for Surplus Property Disposition

- Highest and best use
- Current zoning/entitlements, potential General Plan amendment?
- Interest in non-City public uses, such as affordable housing or school
- Viability/funding available for a proposed future use
- Influence City needs over future development, potential development agreement?

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Next Steps

- Continue pursuit of near-term property transactions
- Refine Asset Management proposal based on stakeholder feedback
- Develop resource allocation recommendations
- Incorporate strategy into structural deficit elimination recommendations to Council

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Discussion Question

What approval framework would be most effective for evaluating/affirming staff conclusions, understanding that any change in use will impact an interest group?

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Changing our Retirement Plan into a Two-Tier System

**Mark Danaj
Human Resources Director**

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BACKGROUND

- Since 1996, the retirement expenses to the General Fund have doubled from \$52.8 million to \$102 million.
- Management Partners has recommended a lower cost defined benefit plan as a possible option (page 122 in the Management Partners 01/04/08 report to the City Manager)

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TYPES OF RETIREMENT PLANS

- Defined Benefit
- Defined Contribution
- Hybrid Plan

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- Federated (2.5%/year, 75% max)
- Police (50% for 1st 20 years and 4% after 20 years, 90% max)
- Fire (50% for 1st 20 years and 3% after 20 years, 90% max)

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RETIREE HEALTH CARE

- Current plan: with 15 years of service, City will pay the premium for the lowest cost plan (single or family) upon retirement


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ITEM TO NOTE


- Two Tier system will address City's long term financial position (Outlook 15+ years)

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Changing our Retirement Plan into a Two-Tier System


Questions and Discussion

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Court Decisions Regarding Union City's 9-1-1 Fee and Assessment Districts

Patricia Deignan, City Attorney's Office

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Recent Prop 218 Cases

Proposition 218

"Right to Vote on Taxes Act"

- 1996 Constitutional amendment
- Substantive and Procedural provisions for implementation of taxes/fees/assessments
- "limit(s) the methods by which local governments exact revenue from taxpayers without their consent"

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Santa Clara County Open Space Authority Case

- Assessments required to be:
 1. imposed only for special benefit to parcel; and
 2. proportional to the special benefit
- 2001 "assessment" of \$20/sfd on every parcel in County for acquisition of open space anywhere in County

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Santa Clara County Open Space Authority case

Supreme Court held OSA Assessment:

- Not limited to special benefits:
 - all identified benefits conferred to all County residents
- Not Proportional:
 - proportionality based on cost of improvement/service; allocated based on benefit to parcels;
 - assessment can't fund agency's ongoing operating budget.
- This was a special tax that should have gone to voters

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Union City 911 Fee Case

- Fee v. Tax
 - Tax is imposed for general revenue purposes
 - Fees: regulatory/user/impact
- 9-1-1 Fee
 - doesn't fall into any of these categories
 - an access fee for emergency communication system

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Union City 9-1-1 Fee Case

Court held:

- A fee for access to city services that is equally available to the public as a whole is a special tax.
- The 9-1-1 fee is a special tax that should have gone to the voters

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Recent Prop 218 Cases

Conclusions:

- Imposition to fund a specific City service benefiting general public = special tax
- Existing San Jose assessment districts OK
- Citywide assessment district may not be valid; more research needed
- Changing 9-1-1 Fee to a general tax was timely

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